

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Mountain View, California (City) was incorporated in 1902 and is a charter city, having had its first charter granted by the State of California in 1952. The City operates under the Council-Manager form of government and provides the following services: public safety (police, fire, and paramedic), public works and utilities, community development, community and leisure services, and administration and support services.

A. *Reporting Entity*

The accompanying basic financial statements present the financial activity of the City, which is the primary government presented, along with the financial activities of its component units, which are entities for which the City is financially accountable. Although they are separate legal entities, *blended* component units are in substance part of the City's operations and are reported as an integral part of the City's financial statements. The City's component units, which are described below, are all blended.

The Mountain View Shoreline Regional Park Community (Community) - is a separate government entity created for the purpose of developing approximately 1,550 acres of bayfront lands. The Community is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Community. Its financial activities have been aggregated and merged (termed "blended") with those of the City in the accompanying financial statements in the Shoreline Regional Community Park Special Revenue and the Tax Allocation Bond Debt Service Funds. Separate financial statements for the Community are also included in the City's Comprehensive Annual Financial Report.

The Mountain View Revitalization Authority (Authority) - is a separate government entity whose purpose is to prepare and implement plans for improvement, rehabilitation, and development of an area within the City. The Authority is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Authority. Its financial activities have been aggregated and merged (termed "blended") with those of the City in the accompanying financial statements in the Revitalization Authority Special Revenue Fund and the Police/Fire Building Refunding 1995 Certificates of Participation Debt Service Fund. Separate financial statements for the Authority are also included in the City's Comprehensive Annual Financial Report.

The City of Mountain View Capital Improvement Financing Authority (Financing Authority) - is a separate government entity whose purpose is to assist with the financing or refinancing of certain public capital improvements within the City. The Financing Authority is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Financing Authority. All outstanding indebtedness was retired in fiscal year 2002, the Financing Authority is currently inactive. Separate financial statements for the Financing Authority are not required and therefore, not issued.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation

The City's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

These standards require that the financial statements described below be presented.

Government-wide Statements: The Statement of Net Assets and the Statement of Activities display information about the primary government (the City and its component units). These statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and (c) development fees and permits, which are capital grants under California law. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category—*governmental*, *proprietary*, and *fiduciary*—are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
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C. Major Funds

Major funds are defined as funds which have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total of governmental and enterprise funds. Major governmental and business-type funds are identified and presented separately in the fund financial statements. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type. The General Fund is always a major fund, and the City may select other funds it believes should be presented as major funds. The City selected the Mountain View Revitalization Authority for presentation as a major fund because of its importance.

The City reports the following major governmental funds in the accompanying financial statements:

General Fund - This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Revitalization Authority Fund – This fund accounts for the activities of the Authority which was created to prepare and carry out redevelopment plans for a designated area of the City.

Shoreline Regional Park Community Fund – This fund receives tax increment revenues on property within the Community. The fund accounts for the revenues and expenditures of the Community.

General Capital Projects Fund – This fund accounts for all general capital improvements on a pay-as-you-go basis for projects not funded from proprietary funds.

The City reports all its enterprise funds as major funds in the accompanying financial statements:

Water Fund – This fund accounts for the expenses related to the operation, maintenance and capital outlay required to supply, distribute and meter water, which are paid from revenues derived from user fees.

Wastewater Fund – This fund accounts for the expenses related to the operation, maintenance and capital outlays required to provide wastewater services, which are paid from revenues derived from user fees. The City has an agreement with the City of Palo Alto to purchase treatment capacity at the Palo Alto Regional Water Quality Control Plant.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Solid Waste Fund – This fund accounts for disposal services, recycling operations, other solid waste operations and certain costs related to maintenance of the closed landfill sites. Collection operations are provided by an outside private contractor. The City has an agreement with the Cities of Palo Alto and Sunnyvale for disposal transfer capacity at the Sunnyvale Materials and Recovery Transfer (SMaRT) Station.

The City also reports the following fund types:

Internal Service funds. These funds account for equipment maintenance and replacement; retirees' health and employee benefits plans; and for workers' compensation, unemployment self-insurance, general liability self-insurance, and property insurance coverage; all of which are provided to other departments on a cost-reimbursement basis.

Fiduciary funds. These Agency funds account for assets held by the City as an agent for individual, private organizations, and other governments.

D. Basis of Accounting

The government-wide, proprietary, and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *full accrual basis of accounting*. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under this method, revenues are recognized when *measurable and available*. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, landfill containment costs and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Those revenues susceptible to accrual are property taxes, sales taxes, utility user taxes, transient occupancy taxes, earned grant entitlements, special assessments due within the current year, certain intergovernmental revenues, and interest revenue. All other revenue items are considered to be measurable and available only when cash is received.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the City may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities.

The City follows Statements and Interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, unless they conflict with Government Accounting Standards Board pronouncements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's business-type activities and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and internal service funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Inventory of Materials and Supplies

Inventories are valued at cost (first in, first out). Inventories of the General Fund consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed. Inventories of the Shoreline Golf Links Special Revenue Fund consist of merchandise held for resale to consumers. The cost is recorded as an expenditure at the time individual inventory items are sold. Reported General and Special Revenue Fund inventories are equally offset by a fund balance reserve which indicates that they do not constitute available spendable resources even though they are a component of net current assets.

F. Property Tax

Santa Clara County assesses properties and it bills, collects, and distributes property taxes to the City. The County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on July 1 for the fiscal year.

Secured property tax is due in two installments, on November 1 and February 1, and becomes a lien on those dates. It becomes delinquent after December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31. Collection of delinquent accounts is the responsibility of the County, which retains all penalties.

The term "unsecured" refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the City in the fiscal year they are assessed, provided they become available as defined above.

G. Compensated Absences

Compensated absences representing vacation, sick leave pay and related costs of Governmental Fund Types that are expected to be liquidated with expendable available financial resources are reported as an expenditure and a fund liability of the governmental fund that will pay them.

Amounts not expected to be liquidated with expendable available financial resources are reported in the Statement of Net Assets in addition to the balance reported in the Governmental Funds Balance Sheet. General, Revitalization Authority, Shoreline Regional Park Community, and Shoreline Golf Links funds are used to liquidate compensated absences. The entire vacation, sick leave pay and related costs in Proprietary Fund Types are accrued when incurred and reported as a fund liability. The City uses the termination payment method for the calculation of compensated absences.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
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H. Land Held for Redevelopment

At June 30, 2003 the Authority had two parcels held for redevelopment; one purchased in fiscal year 2000 and one purchased in fiscal year 2003, which are being held for future development projects. The parcels are accounted for at the lower of cost or net realizable value.

I. Use of Estimates

The accompanying basic financial statements have been prepared on the modified accrual and/or accrual basis of accounting in accordance with generally accepted accounting principles. This requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING
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A. Budgets and Budgetary Accounting

The City adopts an annual budget on or before June 30 for the ensuing fiscal year for the General Fund and all Special Revenue Funds except the Deferred Assessments Fund, Grants Fund and Police Asset Forfeitures Fund.

No annual budgets are adopted for the Debt Service Funds. Repayment of the debt is authorized by the adoption of the indenture provisions for the life of the debt.

The Storm Drain Construction and Park Land Dedication Capital Projects Funds are budgeted annually. All other Capital Projects Funds are budgeted on a project basis. Such budgets are based on a project time frame, rather than a fiscal year "operating" time frame, whereby unused appropriations continue until project completion.

Budget appropriations become effective each July 1. The City Council may amend the budget during the fiscal year. The legal level of budgetary control has been established at the fund and department level. Appropriations generally lapse at the end of the fiscal year to the extent they have not been expended or encumbered.

All Governmental Fund Type annual budgets are presented on a basis consistent with the basic financial statements prepared in accordance with generally accepted accounting principles.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING (Continued)

Budgeted revenue amounts represent the original budget modified by adjustments authorized during the year. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year and reappropriated amounts for prior-year encumbrances. City Council must approve appropriation increases to departmental budgets; however, management may transfer Council-approved budgeted amounts within fund and departmental expenditure classifications. Judgments, settlements and accrual entries are not subject to budgetary control and expenditures exceeding budget due to these items do not constitute a violation of budget policy or control. Supplemental appropriations were approved during the course of the year as needed.

B. *Encumbrance Accounting*

Under encumbrance accounting, purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary integration. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities and are automatically reappropriated for inclusion in the following year's budget.

NOTE 3 – CASH & INVESTMENTS

The City's investments are carried at fair value, as required by generally accepted accounting principles. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

The City pools cash from all sources and all funds, except Restricted Cash and Investments with Fiscal Agents, so the pool of funds can be invested consistent with goals for safety and liquidity, while maximizing yield. Cash is pooled so individual funds can make expenditures at any time.

Investment income is allocated among funds on the basis of average daily cash and investment balances in each fund, unless there are specific legal or contractual requirements to do otherwise.

A. *Categorization of Credit Risk of Securities Instruments*

The City invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. In order to increase security, the City employs the Trust Department of a bank as the custodian of certain City managed investments, regardless of their form.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 3 - CASH AND INVESTMENTS (Continued)

The City categorizes its individual securities instruments in ascending order to reflect the relative risk of loss of these instruments. This risk is called Credit Risk, the lower the number, the lower the risk.

The three levels of risk prescribed by generally accepted accounting principles are described below:

Category 1 - The City is the registered owner of securities held in book entry form by the Bank's Trust Department. Securities instruments in this category are in the City's name and are in the possession of the Trust Department of the Bank employed by the City solely for this purpose.

Category 2 - Securities instruments and book entry form securities in this category are in the Bank's name but are held by the Bank's Trust Department in a separate account in the City's name.

Category 3 - Includes only City-owned securities instruments or book entry form securities which are not in the City's name and not held by the Bank's Trust Department.

Pooled Investments - Pooled investments are not categorized because of their pooled, rather than individual, nature.

Investments are carried at fair value and are categorized as follows at June 30, 2003 (dollars in thousands):

	Cash and Investments		
	Available for Operations	Restricted	Total
Category 1 Investments:			
U.S. Treasury obligations	\$ 123,580	0	123,580
U.S. Agency obligations	104,014	0	104,014
Municipal Bonds	134	0	134
Pooled Investments (non Categorized):			
Local Agency Investment Fund	42,343	1,517	43,860
Mutual funds (government securities)	0	1	1
Total investments	270,071	1,518	271,589
Cash in banks and on hand	390	1,412	1,802
Total cash and investments	\$ 270,461	2,930	273,391

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 3 - CASH AND INVESTMENTS (Continued)

The City must maintain required amounts of cash and investments with trustees under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged as reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with City ordinance, bond indentures or State statute. All these funds have been invested as permitted under the Code.

Investments in municipal bonds shown above represent the City's investment in its 2000 Yardis Court Special Assessment Debt. The balance as of June 30, 2003 is stated at amortized cost, which approximates fair value.

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of City debt instruments or Agency agreements (dollars in thousands):

Cash and investments	\$268,250
Restricted cash and investments	2,782
Cash and investments of the City	<u>271,032</u>
Cash and investments in Fiduciary Funds (separate statement)	2,359
Total cash and investments	<u><u>\$ 273,391</u></u>

B. Cash Deposits

Cash in banks is classified insured (Category 1) or collateralized by the trust department or agent of the institution holding the deposit with collateral held in the City's name (Category 2), or as uncollateralized (Category 3).

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the City's cash on deposit or first trust deed mortgage notes with a value of 150% of the City's cash on deposit as collateral for these deposits. Under California Law collateral is held in the City's name and places the City ahead of general creditors of the institution. At June 30, 2003, the total market value of securities held by Bank of America in the pool collateralizing all government deposits, including the City's deposits was \$1.5 billion. The City has waived collateral requirements for the portion of deposits covered by federal deposit insurance.

The carrying amount of the City's cash deposits was \$1.8 million at June 30, 2003. At that date bank balances before reconciling items were \$2.9 million, of which \$247,000 was insured (Category 1), \$1.7 million was collateralized as discussed above (Category 2), and \$984,000 was uninsured and not collateralized (Category 3) at June 30, 2003.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 3 - CASH AND INVESTMENTS (Continued)

C. Authorized City Investments

The City's investment policy and the California Government Code allow the City to invest in the following:

- Securities of the U.S. Government or its agencies
- Mortgage-backed Securities
- Commercial Paper
- Banker's Acceptances
- Medium-term Notes issued by U.S. corporations
- Mutual Funds invested in U.S. Government securities
- Certificates of Deposit
- Municipal Bonds issued by the City or any of its component units
- California Local Agency Investment Fund

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

Cash and investments with an original maturity of three months or less are used in preparing Proprietary Fund statements of cash flows because these assets are highly liquid and are expended to liquidate liabilities arising during the year.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 4 – LOANS RECEIVABLE

At June 30, 2003, the City's notes and loans receivable, by loan type, was comprised of the following (dollars in thousands):

CDBG Rehabilitation	\$ 374
CDBG Blimp	21
Support Network for Women	55
Ginzton Terrace	517
Latham Street Apartments	1,941
Project Match	132
Shorebreeze Apartments	977
Central Park Apartments	1,949
Stoney Pine Charities	124
HomeSafe	100
Pacific Autism Center for Education	20
Charities Housing Development Corporation Land Lease	3,558
Employee Housing	212
Deferred Assessments	4
Total	<u>\$ 9,984</u>

A. Housing Loans

The City engages in programs designed to encourage construction or improvement of housing for persons with low- to moderate-income or other such projects. Under these programs, grants or loans are provided under favorable terms to homeowners or developers who agree to spend these funds in accordance with the City's terms. Since the City does not expect to collect these loans in the near term, they have been offset by reserved fund balance in the fund financial statements.

CDBG Rehabilitation

The City administers a housing rehabilitation loan program initially funded with Community Development Block Grants (CDBG) funds. Under this program, individuals with incomes below a stated level are eligible to receive low interest loans for rehabilitation work on their home. These loans are secured by deeds of trust, which may be subordinated with the prior written consent of the City. The loan repayments may be amortized over the life of the loans, deferred to maturity or a combination of both. There are thirteen such loans totaling \$374,000 as of June 30, 2003.

CDBG Blimp

Blimp loans are rehabilitation loans which require monthly payments. There is one Blimp loan outstanding totaling \$21,000 as of June 30, 2003.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 4 – LOANS RECEIVABLE (Continued)
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B. Support Network for Women

On December 23, 1980 the City loaned \$55,000 to Mid-Peninsula Support Network for the acquisition and rehabilitation of a residential structure for the purpose of providing temporary shelter for battered parents and their children. The loan was funded by CDBG funds. The loan becomes payable upon demand by the City upon failure to comply with the terms of the loan agreement. The loan carries a 12 percent annual interest rate and shall accrue beginning 30 days following the date of demand. The loan is collateralized by a first deed of trust.

C. Ginzton Terrace

On December 11, 1991 the City loaned \$380,000 to the Mid-Peninsula Housing Coalition for predevelopment and land acquisition costs related to the development of a 107 unit affordable senior housing complex located at 375 Oaktree Drive. On May 1, 1993 the City amended the loan agreement and loaned Mid-Peninsula Housing Coalition an additional \$215,000 for the purpose of paying park and recreation fees required prior to occupancy of the land. On February 12, 1996 excess funds not used were returned to the City in the amount of \$78,000. The loan balance of \$517,000 was funded by CDBG funds. The loan is deferred until June 1, 2013, at which time the loan balance and accrued interest will become due and payable, at six percent simple interest. The loan is collateralized by a first deed of trust.

D. Latham Street Apartments

On August 30, 1995 the City and the Authority loaned \$2.1 million to the Mid-Peninsula Housing Coalition for the acquisition and rehabilitation of a 75 unit apartment complex at 2230 Latham Street to provide affordable housing for very low- to moderate-income families. The loan was funded by \$992,000 of Authority Housing Set-Aside Funds, \$688,000 of CDBG funds and \$387,000 of Home Investment Partnership Act (HOME) grant funds. The various components of the loan are to be repaid over a 20 to 24 year period at three percent annual simple interest. The loan is collateralized by a first deed of trust.

E. Project Match

On May 1, 1997 the City loaned \$132,000 to Project Match for the acquisition of the house located at 1675 South Wolfe Road, Sunnyvale, to provide affordable housing for low-income seniors. The loan was funded by HOME grant funds. The loan is to be repaid over a 30 year period at three percent annual simple interest. The loan is collateralized by a second deed of trust.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 4 – LOANS RECEIVABLE (Continued)
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F. Shorebreeze Apartments

On June 1, 1997 the City loaned \$1.1 million to the Mid-Peninsula Housing Coalition for the acquisition and rehabilitation of a 120 unit apartment complex at 460 Shoreline Boulevard to provide affordable housing for very low- to moderate income families. The loan was funded by \$320,000 of HOME grant funds and \$748,000 of CDBG funds. The various components of the loan are to be repaid over a 30 year period at three percent simple interest. The loan is collateralized by a second deed of trust.

G. Central Park Apartments

On July 1, 1998 the City and the Authority loaned \$2.2 million to the Mid-Peninsula Housing Coalition for the acquisition and rehabilitation of a 149 unit apartment complex known as Central Park Apartments at 90 Sierra Vista Avenue to be used to provide housing for seniors of very low to low income. The entire project was funded by 3 loans: \$388,000 from Authority Housing Set-Aside funds to be repaid over 9 years, commencing in fiscal year 1999 and bearing three percent annual interest; \$1.2 million of CDBG funds to be repaid over 36 years commencing in fiscal year 2013 and bearing three percent annual interest; and \$612,000 from HOME grant funds to be repaid over 21 years commencing in fiscal year 2005 and bearing three percent annual interest.

H. Stoney Pine Charities

On August 16, 2000 the City loaned \$124,000 to the Stoney Pine Charities Housing Corporation for the construction of a 23 unit apartment complex at 212 North Mathilda Avenue and 271-283 West California Avenue, Sunnyvale, to provide affordable housing for very low-income persons with developmental disabilities. The loan was funded by \$9,000 of CDBG funds and \$115,000 of HOME grant funds. The loans bear simple interest at three percent, but repayment of interest and principal is deferred for 40 years. The loans and accumulated interest remain deferred unless during the term of the loan, or after 40 years, the apartments no longer meet the affordability test for very low-income persons with developmental disabilities, or if the property is sold or transferred. The loan is collateralized by a second deed of trust.

I. HomeSafe

On February 21, 2001 the City loaned \$100,000 to the HomeSafe Santa Clara L.P. for the construction of a 25-unit apartment complex at 611 El Camino Real, Santa Clara, to provide affordable housing for women and children who are victims of domestic violence. The loan was funded by \$100,000 of HOME grant funds. The loan bears simple interest at three percent, but repayment of interest and principal is deferred for 55 years. The loan and accumulated interest are deferred for 55 years unless during the term of the loan, the apartments no longer meet the affordability test for low and very low-income victims of domestic violence, or if the property is sold or transferred. The loan is collateralized by a first deed of trust.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 4 – LOANS RECEIVABLE (Continued)

J. Pacific Autism Center for Education

On October 15, 2001, the City loaned \$20,000 to the Pacific Autism Center for Education for the purchase of a single family residence located at 854 Gary Avenue, Sunnyvale, to provide a home for very low- to low-income developmentally disabled persons. The loan was funded by \$20,000 of CDBG funds. The loan bears interest at six percent, but repayment of interest and principal is deferred unless the residence no longer meets the affordability test for very low- to low-income developmentally disabled persons, or if the property is sold or transferred. The loan is secured by a fourth deed of trust.

K. Charities Housing Development Corporation Land Lease

On April 25, 2002 the City approved loaning up to \$3.2 million of CDBG funds and HOME funds to Charities Housing Development Corporation for the prepayment of a 65 year lease of approximately 1.688 acres of unimproved land. The City approved loaning up to \$4.5 million of CDBG funds and HOME grant funds to Charities Housing Development Corporation for predevelopment costs. The land must be used to provide affordable housing for low and very-low income persons. The loan is provided at zero percent interest with repayment deferred until the project is constructed and at least 90 percent occupied. As of June 30, 2003 the balance loaned is \$3.6 million, of which \$2.5 million consists of CDBG funds and \$1.1 million consists of HOME grant funds.

L. Employee Housing

On August 14, 2002, the City approved loaning \$216,000 to one of its employees. The loan is secured by a first deed of trust and has a term of 30 years with interest at approximate three percent. Principal and interest payments are due semimonthly. The employee must repay any outstanding balance of the loan within one year of ending employment with the City. As of June 30, 2003 the loan balance was \$212,000.

M. Deferred Assessments

Deferred assessments are loans for special assessment improvements made to property owners who qualify under the City's deferred assessment program. As of June 30, 2003, \$4,000 was owed the City under this program.

NOTE 5 – INTERFUND TRANSACTIONS

A. Transfers Between Funds

With Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers is to reimburse a fund that has made an expenditure on behalf of another fund. Less often, transfers may be made to open or close a fund.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 5 – INTERFUND TRANSACTIONS (Continued)

Transfers between funds during the fiscal year ended June 30, 2003 were as follows (dollars in thousands):

<u>Fund Receiving Transfers</u>	<u>Fund Making Transfers</u>	<u>Amount Transferred</u>
General Fund	Revitalization Authority	\$ 110 A
	Shoreline Regional Park Community	1,384 B
	General Capital Projects	1,394 C
	Non-Major Governmental	1,652 F
	Water	75 D
Revitalization Authority	General Capital Projects	148 C
Shoreline Regional Park Community	General Capital Projects	992 C
General Capital Projects	General Fund	2,494 F
	Revitalization Authority	3,048 F
	Shoreline Regional Park Community	4,481 F
	Non-Major Governmental	7,565 F
	Water	450 F
	Wastewater	200 F
Non-Major Governmental	General Fund	1,013 F
	Revitalization Authority	724 F
	Shoreline Regional Park Community	5,096 F
	General Capital Projects	1,200 C
	Non-Major Governmental	548 C
Water	General Capital Projects	897 C
	Wastewater	204 E
	Solid Waste	126 E
	Internal Service	74 F
Wastewater	General Capital Projects	307 C
Solid Waste	General Capital Projects	14 C
Internal Service	General Fund	1,040 F
	Revitalization Authority	1 F
	Shoreline Regional Park Community	60 F
	Non-Major Governmental	165 F
	Water	133 F
	Wastewater	94 F
	Solid Waste	106 F
Total Interfund Transfers		<u>\$ 35,795</u>

The reasons for these transfers are set forth below:

- A To fund development activities.
- B To fund debt service payments.
- C To refund remaining balances on completed capital improvement projects.
- D Contribution to Geographic Information System and environmental management programs.
- E Contribution to utility billing and management activities paid for by the Water fund.
- F Recurring transfers

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 5 – INTERFUND TRANSACTIONS (Continued)

B. Long-Term Interfund Advances

The Funds below had made advances, which were not expected to be repaid within the next year. These long-term interfund advances are expected to be repaid out of future revenues. The balances outstanding as of June 30, 2003 were as follows (dollars in thousands):

Fund Making Advance	Fund Receiving Advance	Amount of Advance
General Fund	Revitalization Authority Special Revenue Fund	\$ 2,086
	Shoreline Regional Park Community Special Revenue Fund	13,333
Special Revenue Fund:		
Shoreline Regional Park Community	Shoreline Golf Links Special Revenue Fund	5,100
Shoreline Regional Park Community	Revitalization Authority Special Revenue Fund	1,910
Enterprise Funds:	Capital Projects Fund:	
Water Enterprise Fund	General Capital Projects	15,829
Wastewater Enterprise Fund	General Capital Projects	4,347
Solid Waste Enterprise Fund	General Capital Projects	235
		<u>\$ 42,840</u>

Revitalization Authority advance of \$1.7 million from the General Fund will be repaid at a reamortized interest rate of six percent over the sixteen-year remaining life of the Authority. A payment of \$61,000 was made in fiscal year 2003. The remaining advance of \$413,000 will be paid in full upon the sale of the property located at 253-255 Franklin Street.

The advance of \$1.9 million from the Community is an interest-deferred advance for the purchase of property. The advance, plus interest at a rate of six percent, will be repaid from future revenues realized when the property is developed or sold.

Shoreline Regional Park Community advance of \$13.3 million is being repaid over a period of 28 years at ten percent interest in equal annual installments, which began in fiscal 1989. During fiscal year 2003 a payment of \$510,000 was made.

Shoreline Golf Links advance of \$5.1 million for the acquisition of the golf course will be repaid as resources become available in the fund. Interest terms have not been determined.

General Capital Projects advances totaling \$20.4 million are part of the City's capital projects budgeting and funding process, whereby resources from Enterprise Funds are advanced to the General Capital Projects Fund where the project will be completed and the costs incurred.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 5 – INTERFUND TRANSACTIONS (Continued)

C. Internal Balances

Internal balances are presented only in the government-wide financial statements. They represent the net interfund receivables and payables remaining after the elimination of all such balances within governmental and business-type activities.

NOTE 6 – CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. The City defines capital assets as assets with an initial individual cost of more than \$3,000 and an estimated useful life in excess of two years.

Depreciation is provided using the straight line method, which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The City has assigned the useful lives listed below to capital assets.

Buildings	25 to 50 years
Improvements	5 to 50 years
Machinery and equipment	3 to 10 years
Parking facilities	40 years
Traffic signals	20 years
Street lights	50 years
Bridges and culverts	60 years
Sidewalks, curbs and gutters	40 years
Streets and roads	40 years

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 6 – CAPITAL ASSETS (Continued)

A. Capital Asset Additions and Retirements

Capital assets at June 30, 2003 comprise (dollars in thousands):

	Balance at June 30, 2002 (including retroactive additions)	Additions	Retirements	Transfers	Balance at June 30, 2003
Governmental activities					
Capital assets not being depreciated:					
Land	\$ 69,852	0	0	0	69,852
Construction in progress	66,358	15,198	0	(14,326)	67,230
Total capital assets not being depreciated	136,210	15,198	0	(14,326)	137,082
Capital assets being depreciated:					
Buildings	96,169	0	(511)	1,965	97,623
Improvements other than buildings	48,079	0	(1,577)	9,071	55,573
Machinery and equipment	16,665	1,225	(1,016)	613	17,487
Parking facilities	4,140	0	0	0	4,140
Traffic signals	5,255	3	0	0	5,258
Street lights	7,445	26	0	0	7,471
Bridges and culverts	7,925	0	0	0	7,925
Sidewalks, curbs and gutters	102,155	107	0	1,018	103,280
Streets and roads	229,902	115	0	1,659	231,676
Total capital assets being depreciated	517,735	1,476	(3,104)	14,326	530,433
Less accumulated depreciation for:					
Buildings	(27,074)	(2,572)	206	0	(29,440)
Improvements other than buildings	(13,223)	(3,763)	0	0	(16,986)
Machinery and equipment	(11,754)	(1,682)	857	0	(12,579)
Parking facilities	(1,133)	(99)	0	0	(1,232)
Traffic signals	(1,832)	(125)	0	0	(1,957)
Street lights	(4,565)	(178)	0	0	(4,743)
Bridges and culverts	(1,636)	(189)	0	0	(1,825)
Sidewalks, curbs and gutters	(27,827)	(2,446)	0	0	(30,273)
Streets and roads	(60,763)	(5,495)	0	0	(66,258)
Total accumulated depreciation	(149,807)	(16,549)	1,063	0	(165,293)
Net capital assets being depreciated	367,928	(15,073)	(2,041)	14,326	365,140
Governmental activity capital assets, net	\$ 504,138	125	(2,041)	0	502,222

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 6 – CAPITAL ASSETS (Continued)

	Balance at June 30, 2002	Additions	Retirements	Transfers	Balance at June 30, 2003
<i>Business-type activities</i>					
Capital assets, not being depreciated:					
Land	\$ 220	0	0	0	220
Construction in progress	9,075	3,574	0	(1,630)	11,019
Total capital assets not being depreciated	9,295	3,574	0	(1,630)	11,239
Capital assets, being depreciated:					
Buildings	8,927	0	0	0	8,927
Improvements other than buildings	42,075	671	0	1,630	44,376
Machinery and equipment	1,574	47	(5)	0	1,616
Total capital assets being depreciated	52,576	718	(5)	1,630	54,919
Less accumulated depreciation for:					
Buildings	(7,610)	(171)	0	0	(7,781)
Improvements other than buildings	(18,262)	(1,036)	0	0	(19,298)
Machinery and equipment	(1,363)	(50)	5	0	(1,408)
Total accumulated depreciation	(27,235)	(1,257)	5	0	(28,487)
Net capital assets being depreciated	25,341	(539)	0	1,630	26,432
Business-type activity capital assets, net	\$ 34,636	3,035	0	0	37,671

Under GASB Statement No. 34 the City is allowed four years to record its infrastructure. During fiscal year 2003 the City continued to inventory its infrastructure capital assets and determined that its parking facilities network with a net book value of \$3.0 million should be added to the City's Capital Assets.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 6 – CAPITAL ASSETS (Continued)

B. Depreciation Allocation

Depreciation expense was charged to functions and programs based on their usage of the related assets. The amounts allocated to each function were as follows (dollars in thousands):

Governmental Activities:

General government	\$ 1,708
Public safety	1,208
Public works	7,924
Community development	452
Culture and recreation	5,257
	<u>\$ 16,549</u>

Business-type Activities:

Water	\$ 752
Wastewater	496
Solid Waste	9
	<u>\$ 1,257</u>

C. Construction Commitments

The City has active construction projects at June 30, 2003. The projects include buildings and building improvements, improvements to parks, trails and other facilities, street, sidewalks and traffic signal improvements, and water system improvements. Commitments with contractors for construction at June 30 are as follows (dollars in thousands):

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Buildings and building improvements	\$ 353	1,602
Improvements to other facilities	8,206	445
Streets, sidewalks, and traffic signal improvements	3,309	3,929
Water system improvements	1,316	620
Wastewater system improvements	378	563
	<u>\$ 13,562</u>	<u>7,159</u>
Total		

All commitments are funded from general, special revenue fund, and enterprise fund revenues transferred to the various projects in the capital projects fund.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 7 – LONG-TERM OBLIGATIONS

A. Governmental Long-Term Obligations

The City generally incurs long-term debt to finance projects or purchase assets which will have useful lives equal to or greater than the related debt. The City's debt issues and transactions are summarized below and discussed in detail thereafter.

Long-term obligations as of June 30, 2003 follow (dollars in thousands):

	Original Issue Amount	Balance June 30, 2002	Retirements	Balance June 30, 2003	Due Within One Year
Governmental Activity Debt:					
Tax Allocation Bonds:					
Shoreline Regional Park Community					
1993 Tax Allocation Bonds					
3.1% to 5.75%, due 2018	\$ 25,465	20,415	(760)	19,655	795
1996 Tax Allocation Bonds					
4.0% to 5.6%, due 2021	21,750	19,285	(565)	18,720	590
2001 Tax Allocation Bonds					
3.5% to 5.25%, due 2016	17,520	17,520	(870)	16,650	915
Less deferred amount on refunding	(2,419)	(2,258)	161	(2,097)	0
Total Tax Allocation Bonds	62,316	54,962	(2,034)	52,928	2,300
Certificates of Participation:					
Revitalization Authority					
1995 Refunding					
4.0% to 6.0%, due 2016	9,175	7,485	(340)	7,145	355
City					
2001 Refunding					
3.5% to 4.75%, due 2015	10,720	10,720	(590)	10,130	620
Less deferred amount on refunding	(2,151)	(1,997)	154	(1,843)	0
Total Certificates of Participation	17,744	16,208	(776)	15,432	975

(Continued)

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 7 – LONG-TERM OBLIGATIONS – (Continued)

	Original Issue Amount	Balance June 30, 2002	Additions	Retirements	Balance June 30, 2003	Due Within One Year
Special Assessment Debt with City Commitment:						
1986 California Street Underground 5.25%-8.2%, due 09/01/06	592	245	0	(45)	200	40
1986 Plymouth 5.25%-8.2%, due 09/01/06	1,133	480	0	(80)	400	90
1986 Charleston-Joaquin-Huff Improvements 6.0%-8.2%, due 09/02/07	2,690	1,080	0	(185)	895	200
1990 Alta Avenue 6.5%-8.0%, due 09/02/06	845	405	0	(70)	335	75
1996 Centre-Church-El Ranchito-Bay 4.10%-6.375%, due 09/02/22	561	365	0	(10)	355	10
2000 Yardis Court 7.0%, due 09/02/20	195	138	0	(4)	134	4
Total Special Assessment Debt with City Commitment	6,016	2,713	0	(394)	2,319	419
Compensated Absences		5,680	901	(809)	5,772	619
Landfill Containment		34,865	0	(1,538)	33,327	
Total Governmental Activity Debt	\$ 86,076	114,428	901	(5,551)	109,778	4,313
Business-Type Activities:						
Compensated Absences		\$ 693	64	(19)	738	0

B. Descriptions of Long-Term Obligations

1993 Tax Allocation Bonds Shoreline Regional Park Community – On September 8, 1993 the Community issued bonds in the amount of \$25.5 million to provide financing for certain landfill closure projects. Principal payments are payable annually on August 1 and interest payments semi-annually on August 1 and February 1 from property tax revenues generated within the Community.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 7 – LONG-TERM OBLIGATIONS – (Continued)

1995 Refunding Bonds Revitalization Authority Certificates of Participation – In fiscal 1996, the City transferred ownership of the Police/Fire Building to the Authority and then entered into a 20-year lease for such property with the Authority. Simultaneously, the Authority entered into an indebtedness agreement, whereby the Authority pledges tax increment revenue in amounts equal to the lease payments. The City has assigned the indebtedness payments to a trustee for the benefit of the owners of the 1995 Certificates of Participation (COPs). The indebtedness payments are scheduled to be sufficient in both time and amount, to pay the principal and interest on the 1995 COPs when due. To the extent the indebtedness payments are not sufficient to pay the principal and interest on the 1995 COPs, the City is obligated to make lease payments sufficient to satisfy the principal and interest payments on the 1995 COPs when due. When the 1995 COPs are repaid and the lease expires, ownership of the property will revert back to the City.

1996 Tax Allocation Bonds Shoreline Regional Park Community – On August 15, 1996 the Community issued bonds in the amount of \$21.8 million to provide financing for land purchases, including road, water, sewer, and other public improvements within the Community. Principal payments are payable annually on August 1 and interest payments semi-annually on August 1 and February 1 from property tax revenues generated within the Community.

2001 Tax Allocation Bonds Shoreline Regional Park Community - On July 24, 2001, the Community issued \$17.5 million of Tax Allocation Refunding Bonds, 2001 Series A, to refund a portion of the Community's 1992 Tax Allocation Bonds. At June 30, 2003 the 1992 Tax Allocation Bonds outstanding with a final maturity value of \$5,060,000 are considered defeased. The reacquisition price exceeded the net carrying amount of the 1992 Bonds by \$2.4 million. This amount is being amortized over the remaining life of the new debt issue which is equivalent to the life of the refunded Bonds. The net present value of the savings, less the City's cash payment resulted in an economic gain of \$1.9 million. Principal payments are payable annually on August 1 and interest payments semi-annually on August 1 and February 1 from property tax revenues generated within the Community.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 7 – LONG-TERM OBLIGATIONS – (Continued)

2001 Refunding Certificates of Participation - On July 24, 2001, the City issued \$10.7 million of 2001 Refunding Certificates of Participation to refund a portion of the City's obligations under a 1992 Lease Agreement. The Financing Authority's 1992 Revenue Bonds were used to purchase the obligations of the City under the 1992 Lease Agreement. At June 30, 2003 the 1992 Revenue Bonds outstanding with a final maturity value of \$5.3 million are considered defeased. The reacquisition price exceeded the net carrying amount of the 1992 COPs by \$2.2 million. This amount is being amortized over the remaining life of the new debt issue which is equivalent to the life of the refunded COPs. The 2001 Refunding COPs are collateralized by revenue received from the City by the Trustee under the City Hall/Community Theater complex lease agreement. The net present value of the savings, less the City's cash payment resulted in an economic gain of \$1.8 million. Principal payments are payable annually on August 1 and interest payments semi-annually on August 1 and February 1 from general revenues of the City.

Special Assessment Debt with City Commitment - Special assessment districts exist in the City to provide improvements to properties located within those districts. Properties are assessed for the cost of improvements; these assessments are payable over the term of the debt issued to finance the improvements. The total amount of the assessment is recorded as a receivable and a deferred revenue at the time the related debt is issued, and is reduced as assessments are collected.

The City is committed to be the purchaser of last resort or to advance available City funds to repay this debt in the event of default by any property owners of these districts. The City accounts for resources available to pay special assessment debt in its Special Assessment Debt Service Fund.

These Special Assessment Bonds were issued at various times to provide financing for electrical and community service facilities, street and utility improvements, water and sewer connections, storm drain improvements, and other related projects.

Principal payments are payable annually, and interest payments semiannually.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 7 – LONG-TERM OBLIGATIONS – (Continued)

C. Debt Service Requirements (dollars in thousands):

Annual debt service requirements to maturity follows (dollars in thousands):

For the Year Ending June 30	Governmental Activities	
	Principal	Interest
2004	\$ 3,694	3,770
2005	3,869	3,594
2006	4,060	3,398
2007	4,255	3,196
2008	3,915	2,998
2009-2013	22,617	11,862
2014-2018	24,673	5,231
2019-2022	7,536	697
Total	<u>\$ 74,619</u>	<u>34,746</u>

Reconciliation of long-term debt principal:

Principal requirement as reported above	\$ 74,619
Less: deferred amount on refunding	<u>(3,940)</u>
Total long-term debt principal	<u>\$ 70,679</u>

There are a number of limitations, covenants and restrictions contained in the various bond indentures. The City is in compliance with all material limitations, covenants and restrictions.

D. Landfill Containment

The City is responsible for managing and controlling methane gas and containment of leachate at three former City-operated landfill sites.

As of June 30, 2003, City engineers and professional engineering consultants have estimated that the maximum total cost for potential pollution containment and control at such landfill sites, excluding post-closure care costs, is approximately \$24.1 million. As the landfill-related projects were funded by the Community in fiscal 1994, the liability has been transferred to the City's General Capital Projects Fund. As of June 30, 2003, the entire \$24.1 million obligation has been spent on landfill closure.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 7 – LONG-TERM OBLIGATIONS – (Continued)

Pursuant to a Postclosure Maintenance Plan filed with the State, the City is obligated for additional postclosure care costs for two of its landfill sites in the amount of \$1.4 million annually for a period of thirty (30) years. The remaining amount of this obligation as of June 30, 2003 is approximately \$33.3 million. Annual revenues from the Solid Waste Enterprise Fund will fund the postclosure care costs. In accordance with a State-mandated Financial Assurance Mechanism (FAM), the City has pledged future Solid Waste Enterprise Fund revenues in the amount of \$1.4 million per year for postclosure care costs on these two landfill sites. The third landfill site does not require a FAM to be established for the closure of the site, and, therefore, is excluded from the obligation. The estimated costs of postclosure care are subject to changes such as the effects of inflation, revision of laws and other variables.

E. Debt without City Commitment

As part of the City's program to provide affordable rental housing for low and moderate income households, it assisted the developer of the Villa-Mariposa housing project in the issuance of multifamily housing revenue bonds. These bonds are secured by a First Deed of Trust on the project and by municipal insurance, and are payable solely out of revenues from the project. Neither the faith and credit nor the taxing power of the City, the State, or any political subdivision thereof are pledged for the payment of the principal or interest on the bonds. The outstanding balance due on these bonds at June 30, 2003 was \$18.3 million.

NOTE 8 – EMPLOYEE RETIREMENT PLAN

A. Plan Description

All permanent employees are required to participate in the Public Employees' Retirement Fund (Fund) of the State's Public Employees Retirement System (PERS). The Fund is an agent multiple-employer defined benefit retirement plan that acts as a common investment and administrative agent for various local and state government agencies within California. The Fund provides retirement, disability, and death benefits based on the employee's years of service, age, and highest year of compensation. Employees vest after five years of service and normally receive retirement benefits at age 50 for public safety employees and age 55 for miscellaneous employees (nonsafety employees).

Benefit provisions and all other requirements are established by State statute and City resolution. Copies of PERS' annual financial report may be obtained from their Executive Office-400 P Street, Sacramento, California, 95814.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 8 – EMPLOYEE RETIREMENT PLAN (Continued)

B. Funding Policy

Participants are required to contribute nine percent of covered payroll for public safety personnel and seven percent for miscellaneous employees. The City is required to contribute at an actuarially determined rate. The contribution requirements of the plan members and the City are established and may be amended by PERS.

C. Actuarially Determined Contribution Requirements and Contributions

For fiscal year 2003, the City's annual pension costs for PERS was equal to the City's required and actual contributions. The required contributions were determined as part of the June 30, 2000 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions include (a) 8.25 percent investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 3.75 percent per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.5 percent. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility of the market value of investments over a four-year period (smoothed market value). Investment gains and losses are accumulated as they are realized and 10 percent of the net balance is amortized annually. The PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The amortization period of the unfunded actuarial liability ends on June 30, 2016.

D. Trend Information

Three-year historical trend information is presented below (dollars in thousands):

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2001	\$ 512	100%	---
2002	2,420	100%	---
2003	2,722	100%	---

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 8 – EMPLOYEE RETIREMENT PLAN (Continued)

E. Funding Progress

The following schedule of funding progress is presented for the most recent actuarial valuations as of June 30, 2001 (dollars in thousands):

Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
1999	\$ 171,139	199,085	(27,946)	116.3%	37,204	(75.116%)
2000	202,491	224,390	(21,899)	110.8%	39,739	(55.107%)
2001	220,183	231,421	(11,238)	105.1%	41,427	(27.127%)

NOTE 9 – POST-EMPLOYMENT BENEFITS

By Council resolution, the City provides certain health care benefits for retired employees (spouse and dependents are not included) under third-party insurance plans. Employees who have worked for the City for a minimum of 5 to 10 years (depending on the labor group) if hired prior to July 1, 1989 and 5 to 15 years (depending on the labor group) if hired subsequent to July 1, 1989, are eligible for this benefit. As of June 30, 2003, approximately 211 participants were eligible to receive benefits. Expenses are recognized as insurance claims or premiums are paid. For fiscal 2003, expenses totaled \$733,000.

NOTE 10 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, errors and omissions, injuries to employees or others, unemployment and health care of employees. The City has established various self-insurance programs to account for and finance its uninsured risks of loss. The activities of the self-insurance programs are recorded in the Internal Service Funds. Under the self-insurance programs, the City retains the risk of loss up to a maximum of \$500,000 for general liability claims, \$500,000 for workers' compensation claims with statutory excess insurance and actual costs incurred for unemployment benefits.

For general liability claims, the City has excess liability coverage through the Authority for California Cities Excess Liabilities (ACCEL) to cover the risk of loss for claims in excess of \$500,000 per incident. ACCEL is a joint powers authority of medium-sized California municipalities which pools catastrophic general liability, automobile liability and public officials errors and omissions losses. ACCEL coverage consists of an excess insurance policy purchased for a limit of \$19.5 million per occurrence, with an aggregate limit of \$19.5 million.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 10 – RISK MANAGEMENT (Continued)

Charges to the General Fund and other insured funds are determined from an analysis of self-insured claims costs and reserve requirements and are recorded as operating expenditures or expenses of such funds and operating revenues of the various Internal Service Funds.

Estimated liabilities are recorded for claims in cases where such amounts are reasonably determinable and where the liability is likely for claims which are incurred through the end of the fiscal year but not reported until after that date. The estimated liability is determined based upon historical claims data and independently determined estimates of the amounts needed to pay prior and current year claims.

Changes in accrued self-insurance claims for the fiscal year ended June 30 were as follows (dollars in thousands):

	2003	2002
Beginning Balance	\$ 3,969	3,551
Liability for current and prior fiscal year claims and claims incurred but not reported (IBNR)	965	1,492
Claims paid	(1,101)	(1,074)
Ending Balance	<u>\$ 3,833</u>	<u>3,969</u>

The City has not significantly reduced its insurance coverage from prior year. Furthermore, settlements have not exceeded insurance coverage for the past three fiscal years.

NOTE 11 - NET ASSETS AND FUND BALANCES

A. Net Assets

Net assets is the excess of all the City's assets over all its liabilities, regardless of fund. Net assets are divided into three captions on the Statement of Net Assets. These captions apply only to net assets, which is determined only at the Government-wide level, and are described below:

Invested in Capital Assets, net of related debt describes the portion of net assets which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 11 - NET ASSETS AND FUND BALANCES (Continued)

Restricted describes the portion of net assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and redevelopment funds restricted to low and moderate income purposes.

Unrestricted describes the portion of net assets which is not restricted as to use.

B. *Fund Balances, Reserves and Designations*

In the fund financial statements, fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities. Portions of a fund's balance may be reserved or designated for future expenditure.

Fund balances/retained earnings consist of reserved and unreserved amounts. Reserved fund balances/retained earnings represent that portion of fund balance/retained earnings which are not available for appropriation or are legally segregated for a specific future use. The remaining portion is unreserved fund balance/retained earnings.

Portions of unreserved fund balance may be designated to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans or intentions are subject to change.

Accumulated retained earnings of the Internal Service Funds are in accordance with City reserve policies.

C. *Fund Equity Deficit*

The Shoreline Golf Links Special Revenue Fund had deficit of \$3.0 million, which is expected to be eliminated from future revenues.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

A. *Litigation*

The City is a defendant in several lawsuits and other matters arising in the normal course of operations. The City's management and legal counsel are of the opinion that the potential claims against the City not covered by insurance resulting from such litigation would not materially affect the financial position of the City.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 12 – COMMITMENTS AND CONTINGENCIES (Continued)
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B. Grant Programs

The City participates in Federal and State grant programs. These programs have been audited through the fiscal year ended June 30, 2003 by the City's independent accountants in accordance with the provisions of the federal Single Audit Act amendments of 1996 and applicable State requirements. No cost disallowances were proposed as a result of these audits; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

C. City of Palo Alto Regional Water Quality Control Plant

The City has an agreement with the City of Palo Alto to purchase treatment capacity at the Palo Alto Regional Water Quality Control Plant. The agreement provides that the City will purchase capacity for 50 years. The agreement also provides for Palo Alto to set service charges annually with quarterly billings based on estimated use. A reconciliation of actual to estimated charges is completed annually. For fiscal 2003, these costs totaled \$5.2 million.

D. Sunnyvale Material Recovery and Transfer (SMaRT) Station

During fiscal 1993, the City entered into a Memorandum of Understanding (MOU) with the City of Sunnyvale to obtain solid waste and recycling services at the Sunnyvale Materials Recovery and Transfer (SMaRT) Station. The MOU provides that the City has capacity share of 23.45 percent of this facility for 30 years. Annual service charges are determined based on actual per-ton charges. For fiscal 2003, these costs totaled \$4.7 million.

NOTE 13 – LEASING ARRANGEMENTS

A. Shoreline Amphitheatre Partners

In fiscal 1986, the City and the Community, as lessors, entered into a 35-year operating lease with the Shoreline Amphitheatre Partners (SAP), an entity not affiliated with the City or the Community. This lease provides for the rental of City land underneath the Shoreline Amphitheatre. The lease payments include a minimum lease payment and a portion equal to a percentage of gross receipts, including concession revenues, of Shoreline Amphitheatre operations. A substantial portion of the future minimum lease payments was paid in advance by SAP in fiscal 1997 as permitted in the lease agreement.

The lease payments based on gross receipts totaled approximately \$957,000 in fiscal 2003.

CITY OF MOUNTAIN VIEW, CALIFORNIA
Notes to Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 13 – LEASING ARRANGEMENTS (Continued)

B. *Goldman Sachs, Inc.*

In fiscal 2001, SGI assigned the two lease agreements described below to Goldman Sachs, Inc., an entity not affiliated with SGI or the City.

In fiscal 1995, the City, as lessor, entered into a 55-year lease with Silicon Graphics, Inc. (SGI), an entity not affiliated with the City. This lease provides for the rental of City land located within the Community upon which SGI has constructed a 500,000 square foot corporate campus.

In fiscal 1997, the City, as lessor, entered into another 55-year lease with SGI. This lease provides for the rental of City land located within the Community upon which SGI has constructed a second 556,000 square foot facility.

The future minimum lease payments due to the City under the aforementioned leases follow (dollars in thousands):

Year Ending June 30	Amount
2004	\$ 4,091
2005	4,065
2006	3,658
2007	3,450
2008	3,233
Thereafter	<u>155,784</u>
Total	<u><u>\$ 174,282</u></u>

NOTE 14 – SUBSEQUENT EVENT

In September 2003 the City caused to be issued the 2003 Certificates of Participation (Refunding and Capital Projects) in an aggregate principal amount of \$16.9 million to refund the 1995 Refunding Certificates of Participation and to finance the construction of a new parking facility. Simultaneously, the Authority entered into an Indebtedness Agreement with the City, whereby in exchange for the bond proceeds to finance the construction of the new parking facility in the redevelopment area, the Authority pledged tax increment revenue in amounts equal to the debt service payments on the 2003 COPs.